DEPARTMENT OF DEFENSE

ANNUAL STATEMENT OF ASSURANCE

DISTRIBUTION STATEMENT A
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VOLUME I

FOR FISCAL YEAR 1996

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THE DEPUTY SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301-1000

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WHITE HOUSE

31 DEC 1996

The President
The White House
Washington, DC 20500

Dear Mr. President:

As required by the Federal Managers' Financial Integrity Act (FMFIA), I am providing the Department of Defense FY 1996 Annual Statement of Assurance. This statement of assurance addresses the internal controls and financial systems of the Department and makes disclosures required by the Act. We have been candid to note the many deficiencies in our financial management systems. The Department has launched the largest systematic reform effort in its history to overcome these deficiencies. As we have noted in previous years, however, the Department uses many non-financial systems to manage its extensive resources. Because we utilize these supplementary systems, I believe I can assure you that the Department has reasonable assurance about the effectiveness of its internal controls, and I can conclude the Department is prepared to fulfill its policy and mission responsibilities.

Volume I of this annual statement continues an initiative of this office to identify the most significant administrative and financial management control problems in the Department, the "systemic control deficiencies." Systemic deficiencies are widespread control weaknesses which, in the opinion of senior management, affect at least several of the DoD Components. The systemic weakness approach presents a cohesive effort, overseen by a functional manager in this office, to resolve these problems in an efficient and uniform manner throughout the Department. The objective of this approach is to develop a single DoD-wide solution for each problem and eliminate duplication of effort and development of incompatible systems or processes.

As noted in previous annual statements, the Department continues to report serious, long-standing problems in its financial management systems. The initiatives required to resolve these financial management problems were identified in prior years. However, although they are on schedule, completion of the necessary actions will require several more years. During the past year several major steps have been taken. They include: 14,000 field accounting and finance personnel at 230 locations have been consolidated into 5 centers and 17 operating locations, problem disbursements have been substantially reduced, and vendor payments are more timely with less financial processing due to the application of improved technology and financial systems.

The financial community has reengineered the business process to simplify, improve, and standardize accounting and finance operations. By accessing the World Wide Web, the Department has significantly expanded the use of Electronic Commerce/Electronic Data Interchange with improved data and transaction sharing with business partners. Volume III of this statement, the Chief Financial Officer Financial Management 5-Year Plan, provides

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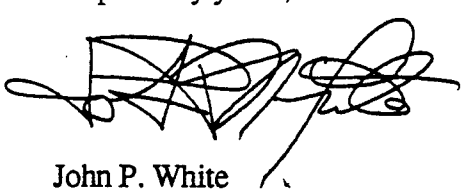
considerable detail regarding the Department's financial management initiatives. Furthermore, the Department continues to make substantial progress in the DoD-wide installation of the Defense Property Accountability System. This system is a major accomplishment in accounting for real and personal property throughout the Department of Defense, and continues to be enhanced even as it is being installed. One of several enhancements is the ability to post excess equipment to an electronic bulletin board for potential redistribution among organizations, providing for both tangible economic benefits and sound record keeping.

I believe the Department is making substantial progress in the area of acquisition reform. With the passage of the "Federal Acquisition Reform Act of 1996" and the "Information Technology Management Reform Act of 1996," the Department is playing a leadership role in the implementation of this statutory authority. The Department has established new policy and procedures which represent dramatic changes in the way DoD has traditionally conducted business. For example, in FY 1996 DoD launched the Defense Acquisition Deskbook, an automated reference tool that provides acquisition information for all functional disciplines and for the Military Departments and DoD Agencies. The "Deskbook" will provide easy access to the most current acquisition information.

The Department is committed to the objectives of FMFIA. Establishment of and compliance with sound internal controls is fundamental to providing a national defense which is consistent with the expectations of all Americans. Evaluation of management controls in an organization as large as DoD is a difficult, exacting, and resource-intensive task. The 1996 revision of Office of Management and Budget Circular A-123, "Management Accountability and Control," has allowed the Department to minimize duplication and draw upon existing practices to fulfill this requirement. This approach, long favored by DoD, will improve our self-evaluation, performance and provide control efficiencies.

Respectfully yours,



John P. White

Enclosure

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Introduction and Executive Summary

The Department of Defense Annual Statement of Assurance is provided in three volumes. Volume I provides a synopsis of the most significant internal management control problems (DoD systemic control deficiencies) and the corrective measures underway to resolve those deficiencies. Volume II provides a detailed analysis of specific DoD Component internal management control weaknesses which have no clear correlation to the systemic weaknesses and are subordinate to them. However, DoD Component weaknesses are considered significant by the management of the DoD Component reporting them. Volume III complies with requirements of Section 4 of the Federal Managers' Financial Integrity Act of 1982; it provides an evaluation of the DoD accounting systems. The disclosures in Volume III are in accordance with U. S. government guidelines to identify system nonconformances.

As noted in the table of contents, seven systemic weaknesses have been identified in the Department of Defense. Although these weaknesses closely parallel those reported in past DoD Annual Statements of Assurance, modifications have been made to their content and some of the milestones associated with the weaknesses.

The weaknesses are:

1. Inadequate Financial Accounting Process and Systems

2. Unreliable Financial Reporting of Personal and Real Property

3. Total Asset Visibility

4. Acquisition Reform

5. Information Systems Security

6. Environmental Deficiencies

7. Third Party Collection Program

The overall effectiveness of the Department and its ability to provide assurances that it is able to achieve its mission objectives, currently and in the long-run, are the focus of Volume I. It provides an overview of the systemic concerns of the senior management of the Department of Defense and it also reflects concerns raised in Federal government arenas outside the Department of Defense. Furthermore, Volume I summarizes the fundamental logic being employed to resolve these problems and to provide assurance that DoD internal controls adequately support the accomplishment of mission objectives.

DoD Statement of Reasonable Assurance

As required by the Federal Managers' Financial Integrity Act (FMFIA), this statement of assurance, in its entirety, addresses the internal controls and financial systems of the Department and makes disclosures required by the Act. With the exception of the disclosed weaknesses, DoD has reasonable assurance about the effectiveness of its internal controls to assure its ability to fulfill its policy and mission responsibilities.

This conclusion is predicated on findings from evaluations conducted as part of DoD implementation of the Federal Managers' Financial Integrity Act (the DoD Management Control Program) and management's assessment of other information pertaining to the effectiveness of management controls. Although this Annual Statement of Assurance reports deficiencies in some management controls, the control deficiencies are not of sufficient materiality to endanger the Department's ability to accomplish its national security responsibilities.

The methods and procedures in place serve as reasonable stewards and effective safeguards of the Department's resources. The Department's controls, where deficient, are offset by other effective controls and reliable procedures that assure the Department's ability to field forces and provide an appropriate response to actions which are adverse to the safety and security of the United States, as directed by the President of the United States.

This statement continues to reflect the February 12, 1994 guidance issued by the Secretary of Defense which initiated activity assuring the participation of the most senior managers of the Department in the identification and resolution of DoD-wide systemic control problems. Based on the Secretary's directions, both the Deputy Secretary of Defense and the Under Secretary of Defense (Comptroller) defined the responsibilities of managers for this initiative. The systemic control deficiencies identified in Volume I of this Annual Statement, and actions outlined to resolve those deficiencies, reflect the Department's commitment to address and resolve these problems. Volume I disclosures also reflect accomplishments to date.

Inadequate Financial Accounting Process and Systems

Statement of the Problem: Financial information in the Department of Defense (DoD) is not always maintained adequately within accounting systems, is not fully compliant with regulatory and statutory requirements, and cannot be processed into financial statements that can withstand the rigors of financial audit. In turn, this financial information and resulting financial statements do not always adequately support the management functions of budget formulation, budget execution, proprietary accounting and financial reporting with a high degree of reliability and confidence.

Source of Identification: DoD financial managers, General Accounting Office (GAO) reports, Department of Defense Inspector General (DoDIG) reports, and DoD Component audit organization reports.

Potential Impact of the Problem: The Department's accounting systems are not always in compliance with generally accepted government accounting standards or with management control objectives. As a result, the quality of financial information is not always reliable, and financial management practices are sometimes inadequate. Additionally, compilation of accurate financial statements is impeded, in part, by the lack of reliable information. The Department's existing financial systems respond slowly to new or changing functional requirements that are generated either by operational needs or by legislative action. Adding to delays is a complex array of separate financial systems or subsystems that operate within specific organizational entities or functions, but do not interface with one another. Consequently, the latest technological innovations are not incorporated within these various financial systems, and data common to more than one system is not exchanged in a timely, effective or efficient manner among systems that continue to operate in a stand-alone mode. This lack of effective and efficient interface/integration contributes, among other manifestations, to unmatched disbursements. In some cases, managers may not have access to specific financial information when needed and, if available, the information often is not in a format useful for decision making purposes. Consequently, it generally is perceived that the most effective use of the Department's resources has been impeded by the major financial system impediments. Also, inadequate controls and undocumented audit trails have contributed to unreliable financial data and exacerbated significant procedural and systemic deficiencies. Some of the broad categories of procedural and systemic problems include: unreliable accounting information; inaccurate or incomplete cost accounting information; improper or incomplete accrual accounting, improper reporting of the results of financial operations; accounting for government furnished property; and lack of financial system integration. In addition, many of the financial systems are not Year 2000 compliant and must be reprogrammed to avoid producing miscalculations beginning with the Year 2000.

Possible Solutions: The Department has undertaken numerous initiatives directed at improving its financial management activities. A significant action was the establishment of a single DoD finance and accounting organization--the Defense Finance and Accounting Service (DFAS)--in 1991. The mission of the DFAS is to implement standard accounting policies and procedures throughout the Department. In addition, the DFAS developed a comprehensive strategic plan to reconfigure the Department's financial processes and systems. The goal is to develop a single

integrated financial management process that produces both reliable financial information for all levels of internal management and for external users as well as enhances the preparation of auditable financial statements.

Another major financial management initiative was the creation of the Senior Financial Management Oversight Council. That body, which is chaired by the Deputy Secretary of Defense, is tasked with the development and oversight of solutions to major financial management problems and issues identified by DoD financial managers, the Congress, the General Accounting Office and the various audit organizations within the Department.

The Department also uses its Chief Financial Officer's Financial Management Five-Year Plan. This Plan identifies problems that inhibit the preparation of auditable financial statements and focuses on improvements in automated systems, standard policies and procedures, and compliance with a U. S. Government Standard General Ledger, management controls and other accounting requirements.

The efforts listed above, as well as other initiatives taken by the Under Secretary of Defense (Comptroller) to control expenditures and unmatched disbursements, increase emphasis on funds control and computer security, establish an Acquisition/Financial Management Panel to improve common business processes, and numerous other efforts to markedly improve the quality of the Department's financial management, have been formulated as a "Blueprint for Financial Management Improvement." A vital part of this plan is a strategy for selecting standard financial systems, thereby reducing the number of financial systems that must be supported from diminishing resources. Thus, the "Blueprint" provides over arching principles and guidelines for improving DoD financial management structure.

Major Milestones in Corrective Actions: (C= Completed)

Completed Milestones:

Date:	Milestone:
C	Designate the DFAS as the single project office responsible for the Department's finance and accounting operations, financial management systems development and implementation.
C	Determine the overall concept of systems architecture for migration systems.
C	Determine and obtain CFO approval of significant financial functional requirements.
C	Standardize accounting classification coding structure and data element definitions.

C	Select migratory/interim migratory finance and accounting systems.
C	Develop an inventory of systems impacted by the Year 2000 problem and prepare a plan to implement the Year 2000 changes.
C	Reduce outstanding balance of unmatched disbursements and negative unliquidated obligations, reported as of June 1993, by 50 percent.
C	Establish senior management governing bodies to monitor operations and identify solutions for resolving financial management weaknesses and deficiencies.
C	Improve the Federal Managers' Financial Integrity Act process.
C	Develop and approve systems implementation schedule.
Continuous	Reengineer DoD finance and accounting processes.
Continuous	Resolve unmatched disbursements and negative unliquidated obligations over 180 days old.

Planned Milestones (FY 1997)

Date:	Milestone:
3/97	Reduce, clarify and reissue published policies and procedures through publication of all volumes of the "DoD Financial Management Regulation."

Planned Milestones (Beyond FY 1997)

Date:	Milestone:
11/98	Complete consolidation of the Department's accounting and finance sites into 5 Centers and 21 standardized Operating Locations.
12/98	Complete the Year 2000 systems changes.
9/00	Complete incorporation of appropriate finance and accounting systems enhancements.
9/00	Resolve significant interface/integration requirements (personnel, acquisition, logistics, contracting and property).

9/01	Complete testing and revision of additional enhancements.
10/01	Transform migratory/interim migratory systems such that they comply with statutory, regulatory and audit requirements and standards governing financial management systems.
10/01	Commence first complete fiscal year under new system architecture that will produce auditable financial statements.

OSD Functional Proponent Point of Contact:

Ms. Juliette McNeil
Office of the Under Secretary of Defense (Comptroller)
Directorate for Accounting Policy
(703) 693-5657

Related Initiatives:

A major control issue/systemic weakness is a statement of a broadly defined management control deficiency of a Department-wide nature. Individual DoD Components have reported on efforts to correct management control weaknesses which are supportive of departmental systemic initiatives. These Component weaknesses are listed below for information purposes. The list identifies the reporting DoD Component and, within each Component, the status of those weaknesses (either unresolved or resolved). Furthermore, Volume II of the Annual Statement of Assurance contains additional weaknesses that have no specific correlation to reported systemic weaknesses, but have been identified by the DoD Components in order to achieve full compliance with management control guidelines.

Department of the Army

Unresolved:

Control of National Guard Personnel, Army Federal Funds

Unreliable Payroll Data - Reserve Personnel, Army

Unsynchronized Financial and Supply Systems Introduce Too Much Uncertainty in Financial Statements

Resolved:

Accounting System (Transferred to and consolidated with Defense Financial and Accounting Service reported open weaknesses.)

Department of the Navy

Unresolved:

Cash Management and Contract Payments at Selected Navy Activities in Europe

Unliquidated and Invalid Obligations

Productivity Gain Sharing

Department of the Navy Revolving Funds Chief Financial Officers Financial Statements Accountability

Unmatched Disbursements

Department of the Air Force

Unresolved:

Supply Management Business Area Accounts

Management Over Free Issue of Reparable Support Division Assets

Depot Maintenance Service Business Area Accounts

Inventory Management - Financial Reporting of Inventories Within the Supply Management Business Area

Value of Munitions Inventory

Contingent Liabilities

Accounting and Finance Operations in U. S. Air Force - Europe

Resolved:

Cost Sharing for the North American Air Defense Modernization Program

Defense Financial and Accounting Service

Unresolved:

Interface Between Contract Payment System and Accounting Systems (Negative Unliquidated Obligations and Unmatched Disbursements)

Military Pay Internal Control Weaknesses

Inadequate General Ledger Control and Unreliable Financial Reporting

Undistributed and Unmatched Cross Disbursing and Interfund Transactions

Contingency Plans

Lack of Reconciliation of Civilian Retirement Fund to Office of Personnel Management Records

Merged Accountability and Fund Reporting Reconciliation

Inadequate Accounting and Reporting for Defense Business Operations Fund

Automated Interface Between Marine Corps Total Force System and Accounting System

Financial Accounting for Inventory Held For Sale

Noncompliance to Standard Defense Business Operations Fund Procedures

Clearing Account Reconciliation

Tracking Closed Account Obligations

Required Reconciliation and Analysis Procedures Are Either Untimely or Nonexistent

Non-Reporting of Internal Revenue Service Form 1099 To Internal Revenue Service

Inventories In-transit General Ledger Account Codes

Lack of Capital Asset Accounting System for U. S. Transportation Command

Lack of Controls to Prevent Duplicate Payments to Vendors

Internal Management Control Deficiencies in Defense Debt Management System and Process

Lack of Reconciliation Between Defense Retiree and Annuitant Pay System - Retiree Casualty Pay Subsystem and Service Personnel Systems

Lack of Controls in Processing and Distribution of Combined Federal Campaign Payroll Deductions for Military Personnel

Property and Inventory Accounting

Lack of Timeliness Adding Separation Overpayments to Debt System

Strengthen and Improve Support of Accounting Operations at Defense Financial and Accounting Service - Cleveland

Internal Management Control Deficiencies in Transportation Payments

General Ledger Control and Reconciliation

Inaccurate Data & Reporting in Marine Corps Uniform Material Management System

Unidentified Items in Suspense Priority Clearing Report

Lack of Report 2 Reconciliation

Trial Balance Reporting for Defense Agencies

Problem Disbursements

Lack of Controls of User Access to Defense Joint Military Pay System-Active Component/Defense Joint Military Pay System-Reserve Component Application Resources

Improve Controls Over Processing of Combined Federal Campaign Payroll Deductions

Updating Defense Joint Military Pay System -Active Component Overseas Housing and Cost of Living Allowances Tables

Inadequate Defense Joint Military Pay System-Active Component/Defense Joint Military Pay System-Reserve Component Table Update

Lack of Internal Controls Within Logistics System Supporting Troop Support Division

Lack of Consolidated Central Site Instruction for Defense Joint Military Pay System - Reserve Component

Accuracy and Credibility of Foreign Military Sales Financial Statements

Conformity of Defense Financial and Accounting Service Systems to Year 2000 Requirements

Resolved:

Outstanding Travel Orders and Advances

Potential Accounting/W-2 Problems

Lack of Training and Standard Operating Procedures

Three Month Backlog of Disbursement Postings

Funds Returned By Contractors

Degradation of Quality Assurance Program

Control Deficiencies in Management of Newly Capitalized Accounting Systems

Reporting Receivables Due From the Public

Identification of Critical Performance Measurement Data

Insupportable Accounts Receivable and Payable in Navy Management Fund

Response Processing Delays for Air Force Retirees

Data Input Controls

Government Furnished Material

Deposit In-Transit Lack of Reconciliation of Navy and Defense Financial and Accounting Service-Cleveland Defense Accounting Office Bank Deposits

Lack of Control in Check Reporting to the Treasury

Civilian Pay and Personnel Record Reconciliations

Inaccurate Year-End Accrued Liabilities

Processing Debts in Defense Joint Military System

Bunker Fuel Payments

Inadequate Controls Over Accounts Receivable

Inadequate Reviews of Accounting Systems

Late Payment of Interest

Discrepancies in Direct Debit Program

Inappropriate Separation of Duties Processing Voluntary Separation Incentive Accounts

Lack of Controls Over Off-Line Separation Payments

Failure to Issue W-2 for Taxable Claim Payments

Erroneous Selective Reenlistment Bonus Payments at Separation

Defense Commissary Agency

Unresolved:

Financial Management Procedural Noncompliance

Defense Logistics Agency

Unresolved:

Financial Statements of the Defense Reutilization and Marketing Service for FY 1993

Inadequate Financial Data Maintenance Regarding

Unmatched Disbursements (Formerly Monitoring and Tracking Financial Data For Unmatched Disbursements)

Resolved:

Second Destination Transportation

Inadequate Defense Business Operations Fund Financial Management

National Imagery and Mapping Agency

Unresolved:

Internal Controls Over Accuracy of Product Inventory

Unreliable Financial Reporting of Personal and Real Property

Statement of Problem: The Department of Defense is not in compliance with statutory, Comptroller General, and inter-departmental requirements for accounting for real and personal property.

Source of Identification: DoD financial managers, and audit reports from the General Accounting Office, Office of the Inspector General, and DoD component audit organizations.

Potential Impact of Problem: The Federal Managers' Financial Integrity Act requires that property and other assets be safeguarded against waste, loss, misuse or misappropriation. General ledger control over property, which is necessary to ensure that all financial transactions are recorded in the official accounting records, is inadequate. Recent financial statement audits found unreliable financial balances of real and personal property.

Existing accounting systems were not designed to satisfy the asset, liability and equity accounting data required for financial reporting purposes. Instead, these systems depended on property managers at functional activities, using logistics systems, to furnish this data. These systems usually do not contain some of the following financial data: acquisition costs (versus standard prices), capitalization codes or thresholds, in-house project investment, modification costs, overhaul costs, or segmentation of the data by financial account codes. This adversely affects the accuracy of accounting systems and financial reporting at the intermediate and departmental levels.

Possible Solutions: To remedy these deficiencies the Department has selected, and is deploying DoD-wide, an integrated property accountability system. This system, the Defense Property Accountability System (DPAS), posts information to the financial records as a by-product of the property custodian's accountability processes.

Major Milestones in Corrective Actions: (C= Completed)

Completed Milestones:

Date:	Milestone:
C	Establish requirements for DoD-wide property system.
C	Review existing systems to determine which could be fielded throughout DoD.
C	Obtain migratory status approval.
C	Modify system to be useful to a broad base of organizations having different property control requirements.

C Begin fielding system in DoD Agencies and Military Services.

Planned Milestones (FY 1997)

Date:	Milestone:
9/97	Complete fielding of system in DoD Agencies.

Planned Milestones (Beyond FY 1997)

Date:	Milestone:
9/00	Complete fielding of system in Military Services.

Reason for Change in Milestones: When the system was selected, it was anticipated that it would be interfaced with single standard systems in tangential business areas (i.e. accounting, supply, procurement). Since DoD has chosen multiple systems in these areas, many additional interfaces need to be built, resulting in an incremental system deployment.

OSD Functional Point of Contact:

Mr. Art Gold
Office of the Under Secretary of Defense (Comptroller)
Directorate for Acquisition and Logistics Systems Integration
(614) 529-8354

Related Initiatives:

A major control issue/systemic weakness is a statement of a broadly defined management control deficiency of a Department-wide nature. Individual DoD Components have reported on efforts to correct management control weaknesses which are supportive of departmental systemic initiatives. These Component weaknesses are listed below for information purposes. The list identifies the reporting DoD Component and, within each Component, the status of those weaknesses (either unresolved or resolved). Furthermore, Volume II of the Annual Statement of Assurance contains additional weaknesses that have no specific correlation to reported systemic weaknesses, but have been identified by the DoD Components in order to achieve full compliance with management control guidelines.

Department of the Army

Resolved:

Accounting System

Department of the Navy

Unresolved:

Excess Material and Unrecorded Inventories

Department of the Air Force

Unresolved:

Asset Valuation

Resolved:

Furnishings Management Within U. S. Air Force - Europe

Defense Financial and Accounting Service

Unresolved:

Unreliable Financial Reporting of Personal and Real Property

Unreliable Financial Reporting on Tactical Military Equipment

Property Management Within Defense Financial and Accounting Service

Resolved:

Lack of Inventory Reconciliation of Plant Account Property

Defense Commissary Agency

Unresolved:

Commissary Accountability

Defense Logistics Agency

Unresolved:

Inaccurate Reporting of Property, Plant, and Equipment Accounts on the Financial Statements

Inadequate Control Reviews for Inventory Other Than

Stock on Hand

National Security Agency

Unresolved:

Fixed Asset and Other Personal Property Accountability, Control and Reporting

Defense Special Weapons Agency

Unresolved:

General Ledger Control Over Property

On-Site Inspection Agency:

Unresolved:

Plant, Property and Equipment

Total Asset Visibility

Statement of the Problem: The Department does not have a capability to share logistics information concerning the location, condition, quantity and availability of assets within and between components and the Unified Commands (CINCs). The Department needs this capability across the functional areas of supply, transportation, maintenance, procurement, personnel, medical and throughout all management levels from wholesale through retail. Additionally, the information must be provided to the operational Joint Task Force (JTF) commanders as well as logistics and weapons systems managers. The components have developed their own systems which give them an asset visibility capability within their own respective organizations. Those systems must now be integrated and voids satisfied so that the Department may effectively and efficiently manage, deploy and ship assets to meet critical readiness, contingency and other requirements.

Source of Identification: Experience during deployment and sustainment of forces in items of war/emergency situations, as evidenced in Operation Desert Storm and, to a lesser extent, in Rwanda, Somalia and Haiti.

Potential Impact of the Problem: The problem has an adverse impact on both readiness, contingencies, and other operations, and results in over spending for items of supply. The inability of a unit to "see" where its requisition is in the pipeline causes that unit to lose confidence in the system when the materiel does not arrive on schedule. As a result, the usual response is to requisition the materiel again. Unfortunately, this only causes an already strapped transportation system to fall further behind trying to move materiel that is not really needed. The inability to manage and allocate transportation assets to the degree required is also a significant problem. Ports of debarkation are severely restricted by lack of information regarding contents of containers and ultimate consignee, causing severe backlogs during contingencies. Item Managers, unaware in many cases of on-hand assets at units, program and buy additional materiel when the requirement could be satisfied from current assets if they were not "invisible" to the Item Manager.

Possible Solutions: In September 1994, the Deputy Under Secretary of Defense for Logistics (DUSD(L)) established a Department of Defense (DoD) Joint Total Asset Visibility (TAV) Task Force to provide validation, oversight, and direction to the DoD TAV Program, through the development of a universally understood and accepted DoD TAV Implementation Plan. On April 21, 1995, the DUSD(L) designated the Army as the Executive Agent to lead the initiatives for further development and implementation of the TAV capability to the CINCs, Services, and other DoD organization. The Army, as the Executive Agent, coordinated a draft of the TAV Implementation Plan in mid-July 1995. A revised final version of the Plan was published in November 1995, approved by the Under Secretary of Defense (Acquisition and Technology), and distributed.

Major Milestones in Corrective Actions: (C = Completed)

Completed Milestones:

Date:	Milestone:
C	Appoint DoD TAV joint task force.
C	Establish a Joint TAV (JTAV) executive agent.
C	Establish a JTAV office.
C	Prepare TAV implementation plan.
C	Identify TAV priorities and provide milestone schedules for TAV implementation.
C	Demonstrate JTAV in-theater capability at Joint Warrior Interoperability Demonstration 95.
C	Demonstrate JTAV in-theater capability at Cobra Gold 96 military exercise.
C	Implement a prototype JTAV in-theater capability in U. S. European Command.
C	Finalize business rules for interservice visibility of reparable assets.

Planned Milestones (FY 1997)

Date:	Milestone:
10/96	Implement a prototype JTAV in-theater capability at U. S. Central Command.
12/96	Develop a TAV functional requirements document.
2/97	Implement a Prototype JTAV in-theater capability at U. S. Atlantic Command.
3/97	Develop a TAV functional architecture.
6/97	Develop a TAV technical architecture.
7/97	Achieve interservice visibility of reparable assets.

7/97	Achieve requisition tracking capability.
7/97	Implement a prototype JTAV in-theater capability at U. S. Pacific Command.
8/97	Implement a prototype JTAV in-theater capability U. S. Forces Korea.

Planned Milestones (Beyond FY 1997)

Date:	Milestone:
1998	Implement a prototype JTAV in-theater capability at U. S. Special Operations Command.
1998	Implement a prototype JTAV in-theater capability at U. S. Strategic Command.
1998	Implement a prototype JTAV in-theater capability at U. S. Southern Command.
1998	Implement automated identification technology.
1999	Achieve visibility of assets in storage and in-process.
1999	Achieve visibility of assets in-transit to include personnel and medical evacuees.

OSD Functional Proponent Point of Contact:

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Related Initiatives:

A major control issue/systemic weakness is a statement of a broadly defined management control deficiency of a Department-wide nature. Individual DoD Components have reported on efforts to correct management control weaknesses which are supportive of departmental systemic initiatives. These Component weaknesses are listed below for information purposes. The list identifies the reporting DoD Component and, within each Component, the status of those weaknesses (either unresolved or resolved). Furthermore, Volume II of the Annual Statement of Assurance contains additional weaknesses that have no specific correlation to reported systemic

weaknesses, but have been identified by the DoD Components in order to achieve full compliance with management control guidelines.

Department of the Army

Unresolved:

Asset Visibility - Unique Item Tracking

Equipment In-Transit Visibility

Resolved:

Continuing Balance System - Expanded Equipment Visibility

Department of the Navy

Unresolved:

Common Use Repairable Items

Administrative Lead Time at Naval Inventory Control Points

Resolved:

Inventory Management of Handheld Missiles

Defense Logistics Agency

Unresolved:

Accuracy of Accountable Property Inventory Records

Physical Inventory Program Not Executed to Standard

DoD Demilitarization Program and Accurate Coding for Items in the Federal Inventory

DoD Demilitarization Program Military Departments/Defense Agencies Internal Regulations

Accountability of Excess Property In-transit to Disposal

Resolved:

Storage Deficiencies at Distribution Points

Acquisition Process and Systems

Statement of the Problem: The Department of Defense has, in the past, built the best weapon systems in the world, thanks to the ability and dedication of the people in DoD and industry. The ability to achieve this success often was not because of the system, but in spite of it. The Department can no longer afford to fight the bureaucratic and rule driven system, it must be able to fully utilize the professionals in the acquisition work force and allow them to exercise their judgment in making sound business decisions on behalf of the U.S. Government. In addition, new national security challenges require us to design a more flexible, agile, and timely acquisition process capable of meeting unpredictable needs. Declining budgets require us to become more efficient and effective, as well as to reduce the costs of our products and services. Finally, technology is developing at an even faster pace, is more often than not led by the commercial sector, and is available to the world. To maintain our technological superiority we must have access to the latest state-of-the-art commercial technology.

Source of Identification of the Problem: DoD acquisition and procurement managers; Defense Science Board reports; General Accounting Office reports; DoD Inspector General reports; and DoD Component audit organization reports.

Potential Impact of the Problem: DoD, as an enterprise, must respond to these changes in every facet of how it accomplishes its mission—and the acquisition system is no exception. The bottom line is—DoD must design an acquisition system that can get out in front of these new challenges instead of reacting to them.

Possible Solutions: There are five critical elements of the draft DoD vision statement of the characteristics of its reengineered acquisition system: meeting warfighter needs; becoming the world's smartest buyer; procuring best-value goods and services; delivering efficiently and on a timely basis; and balancing cost of protections and applications of socio-economic objectives.

Major Milestones in Corrective Actions: (C = Completed)

1. Meet Warfighter Needs: In addition to the more specific and actionable goals, there is one over-arching goal upon which there is no disagreement: The primary mission of the acquisition system is to Meet Warfighter Needs—we must never forget that meeting the customer's needs is paramount. The remaining four critical elements and actions taken are all geared with that over-arching goal in mind.

Date:	Milestone:
Ongoing	The requirements community is using the teaming concept in formulating integrated concept teams to develop their requirements in warfighter terms. The Joint Requirements Oversight Council (JROC) is taking an active role to ensure that the requirements community is an active partner with the acquisition community in implementing the cost as an independent variable

(CAIV) initiative. Early involvement by the requirements community allows cost and performance trade space for the acquisition community.

2. Worlds' Smartest Buyer: The second of the five critical elements of the DoD vision of its reengineered acquisition system is to be the Worlds Smartest Buyer, utilizing a reengineered acquisition process that encourages continuous learning and process improvement; where change is a constant rather than an exception; where there is constant, timely, and effective communication of acquisition reform messages; where there are incentives for personnel to innovate and to manage risk rather than avoid it; and where maximum advantage is taken of emerging technologies, particularly management information systems, that enable business process reengineering and enterprise integration.

Major Milestones in Corrective Actions: (C = Completed)

Date:	Milestone:
Ongoing	Establish a step-by-step strategic plan of action to implement and institutionalize acquisition reforms.
C	1. Secretary Perry's memorandum, "Acquisition Reform: A Mandate for Change" was published on February 9, 1994.
Ongoing	2. Continuously update a strategic plan of action to implement and institutionalize acquisition reforms.
Ongoing	Change behavior by communicating a common acquisition reform message to the people we need to engage for lasting success; focusing on learning, not broadcasting; promoting the use of success stories, lessons learned, incentives and recognition programs; and, getting the right message to the right audience, the right way and at the right time.
C	1. In 1994, the Acquisition Reform (AR) Communications Center was created to work with the joint DoD team to coordinate and facilitate acquisition work force education and training efforts.
Ongoing	2. On May 31, 1996, an Acquisition Reform Day was held with a Department-wide focus on AR initiatives and activities. Feedback was solicited, received, and evaluated. Specific actions required were identified and implementation plans for those actions not yet completed are in process.
3/97	Due to the success of the first AR Day as a communication tool, a second AR day has been scheduled for March 19, 1997.

Ongoing — Provide incentives for acquisition personnel to innovate, while providing appropriate guidance, and the benefit of lessons learned in the past, by redesigning the purpose and approach of both the Federal and DoD acquisition regulations and policies, so they can better facilitate the acquisition process (e.g., by encouraging risk management rather than risk avoidance).

1. The DoD Directive 5000.1 and DoD Instruction 5000.2 were rewritten and published on March 15, 1996. The Defense Acquisition Deskbook was created with the operational test release on May 28, 1996. The first release occurred July 31, 1996, followed by a second release on September 30, 1996. Additional releases will follow.

9/97 — 2. Evaluate the regulation writing process to determine whether that process provides the kind of regulations which meet the needs of the users. Once the evaluation is complete, a systematic rewrite of the Federal Acquisition Regulations will be done, using the re-engineered process.

Ongoing — Create a DoD and government-wide Electronic Commerce/ Electronic Data Interchange (EC/EDI) System for contracting that will provide one face to industry, will allow vendors to interrogate the DoD database of all outstanding Requests for Quotations, etc., by using a Value Added Network of their choice.

C — 1. The recommendations from the EC/EDI Process Action Team were 100% approved by Dr. Perry.

C — 2. An EC infrastructure has been developed and the Electronic Commerce Information Center implementation has been funded.

C — 3. An EC Program management structure has been put in place to manage the implementation and support education and outreach.

Ongoing — 4. Interim DoD Federal Acquisition Computer Network (FACNET) sites have been certified – 305 to date.

C — 5. A DoD EC information center has been established and alternative interfaces to Central Contractor Registration have been developed – World Wide Web and direct dial-in.

3. Procuring Best-Value Goods And Services: DoD will Procure Best-Value Goods and Services, by buying from world class suppliers, who are part of a national, as opposed to defense unique, industrial base, composed predominantly of commercial or dual-use suppliers capable of meeting DoD needs and willing to sell to the U.S. government; and by using

commercial practices to the maximum practicable extent, in order to ensure access to state-of-the-art technology, reduce the cost of products and services to the government, and reduce acquisition lead-times.

Major Milestones in Corrective Actions: (C = Completed)

Date:	Milestone:
Ongoing	Eliminating DoD-unique product or process specifications that inhibit the purchase of commercial items or services, or dictate to a contractor how to produce a product or provide a service.
C	1. Establish policy -- Secretary Perry's memorandum of June 1994 required use of performance specifications; military specs authorized only if waiver provided by the Milestone Decision Authority.
C	2. The Single Process Initiative was implemented on December 8, 1995, encouraging reduction of the number of processes used in a single facility and relying on proven commercial processes as much as possible.
Ongoing	3. Since implementation, the Department has received 295 concept papers from 91 contractors proposing to modify 364 processes. Our administrative contracting officers have signed, and are continuing to sign, block change modifications with many of the major Defense contractors, ensuring that this process is now taking root within a wide spectrum of the defense supplier base.
Ongoing	Use commercial practices to acquire military unique items, as well as commercial items, to the maximum extent practicable.
Ongoing	1. Pilot Programs were authorized in the Federal Acquisition Streamlining Act (FASA) of 1994. Some examples of Pilot Program impacts are as follows: the applicability of commercial practices was demonstrated across a wide variety of defense programs; the Pilot Programs demonstrated with metrics that the use of commercial practices significantly reduced in-house costs and contractor costs; and cost reductions of almost $5 billion and cycle time improvements of up to 35 percent were documented.
Ongoing	Establish and maintain more effective working relationships with industry using Integrated Product Teams (IPTs).
C	1. Establish policy -- Department-wide use of IPTs was implemented by Under Secretary Kaminski's April 28, 1995 memorandum,

"Reengineering the Oversight and Review Process" and Secretary Perry's May 10, 1995 Memorandum, " Use of Integrated Product and Process Development and Integrated Product teams in DoD Acquisition".

Ongoing — 2. Updates on effectiveness are received through input from the monthly Defense Manufacturing Council (DMC) meetings with DoD Program Managers, Program Executive Officers, and Commanders of Major Systems Commands and the PEO/SYSTEM COMMANDER conferences sponsored by the DMC.

4. Delivering Efficiently And On A Timely Basis: DoD will establish and maintain the most timely, flexible, responsive, and efficient system, where individuals or teams are accountable for an entire process and can change the process without inordinate difficulty or delay, and success is judged on the basis of performance related metrics rather than adherence to regulations.

Major Milestones in Corrective Actions: (C = Completed)

Date:	Milestone:
Ongoing	Maximizing the use of simplified acquisition procedures.
C	1. FASA '94 authorized use of simplified acquisition procedures up to $50,000; $100,000 once a certified FACNET system is in place at the specific contracting activity.
Ongoing	Improve the Service and OSD milestone decision-making and information collection processes for major systems, commensurate with risk, dollar value, acquisition strategy, etc., to: establish appropriate levels of service and OSD value-added management, assistance, and oversight; identify appropriate issues for review; ensure that reviews occur at the appropriate time during the program; ensure that reviews foster agreement on appropriate levels of program risk; and ensure that reviews revalidate the chosen system solution to meet a needed military capability, given program risk, cost, schedule, reliability and maintainability, industrial base, and performance considerations. Eliminate functional stove-pipes and replacing them with integrated decision teams that provide the necessary cross-section of functional expertise and organizational input to address and resolve acquisition issues at the lowest possible management level.
Ongoing	1. The Oversight and Review Process Action Team (PAT) Report recommended specific actions, 82 percent of which were approved and are currently in process of implementation.

C	2. Establish adoption of the IPT process as policy -- implemented by Under Secretary Kaminski's April 28, 1995 memorandum, "Reengineering the Oversight and Review Process" and Secretary Perry's May 10, 1995 Memorandum, " Use of Integrated Product and Process Development and Integrated Product teams in DoD Acquisition".
C	3. A new Overarching and Working-level IPT oversight process was designed to successfully team Service and OSD acquisition staffs with PEO and PM staffs to increase the opportunities for program success through early insight rather than after the fact oversight.
Ongoing	4. Through use of the redesigned review process, the time from the day of the Defense Acquisition Board (DAB) meeting to the signing of the Acquisition Decision Memorandum has decreased from an average of about 23 days in 1994 to about two days. In addition, because this early and continuous insight process is helping to resolve major issues, less formal DAB meetings are being held. In the last year, 26 DABs were scheduled, but only 8 were convened.
Ongoing	5. The IPT process goals are also supported by implementation of the Contract Administration PAT recommendations concerning shifting oversight from risk avoidance to risk management, inculcating teaming attitudes between program management offices and the contract administration community, and elimination of non-valued added activities.
Ongoing	Streamline and make more effective and realistic developmental, live-fire, & operational testing.
C	1. The Department was granted authority in Federal Acquisition Streamline Act (FASA)'94 to use alternative live fire test procedures when full-up live-fire test is waived. Also, the 1997 Authorization Act granted the authority to use alternative operational test procedures for Pilot Programs.
Ongoing	Shifting, to the maximum extent practicable, from a management philosophy that attempts to achieve high quality and performance through after-the-fact inspection, to government review of contractor process controls and review of output.
C	1. Establish policy -- Deputy Secretary Deutch's memorandum, "Use of Commercial Quality System Standards in the DoD" was signed on February 14, 1994. This memorandum recognized the use of ISO

	9000 and established policy for the use of those standards. Also, the Single Process Initiative was implemented on December 8, 1995.
Ongoing	2. Since implementation, the Department has received 295 concept papers from 91 contractors proposing to modify 364 processes. Our administrative contracting officers have signed block change modifications with many of the major Defense contractors, ensuring that this process is now taking root within a wide spectrum of the defense supplier base.
Ongoing	Ensuring that DoD emulates the best procurement practices (e.g., timely, responsive, flexible and efficient) of world-class customers and suppliers including: using performance based and fixed price service contracts; rewarding past contractor performance in source selection; identifying and disseminating best procurement practices; eliminating non-value added activities—duplicative reviews, revisiting decisions, and non-hands-on labor.
Ongoing	1. A DoD Procurement Wisdom System was established to identify and disseminate best procurement practices throughout DoD by incorporation into the Defense Acquisition Deskbook, with continuous update planned.
Ongoing	2. Implementation of the Procurement Process PAT recommendations regarding improvement of both the sole source selection and competitive selection processes is underway.
Ongoing	3. A Past Performance Coordinating Council has been established to work past performance policy issues.
Ongoing	Update laws regarding foreign contracting and contingency operations, the lending/borrowing of defense equipment, and war risk to contractor personnel.
C	1. Authority for contingency operations was received in the Federal Acquisition Reform Act (FARA) of 1996.
9/97	2. Proposed Defense Trade and Cooperation legislation will be drafted in FY 1997 and submitted in FY 1998.
Ongoing	Establishing clear process and outcome (performance-related) measures to determine success of change efforts.
C	1. In August of 1995, the Metrics Tiger Team recommended 23 strategic outcome metrics to the Deputy Under Secretary of Defense

(Acquisition Reform) and the Assistant Secretary of Defense (Economic Security). At the direction of the Under Secretary of Defense (Acquisition and Technology), the Deputy Under Secretary of Defense (Acquisition Reform) chartered the Acquisition Reform Benchmarking Group (ARBG) to review the strategic outcome metrics.

Ongoing — 2. Based on the conclusion of the ARBG's review with the Offices of Primary Responsibility that the metrics were "okay for data collection", the Deputy Under Secretary of Defense (Acquisition Reform) tasked the Services/Agencies to begin reporting on October 1, 1995.

C — 3. In 1996, seven DoD Enterprise Acquisition Metrics were identified and approved from the following focus areas: cost, schedule, performance, and training.

5. Balancing Cost Of Protections And Application Of Socio-Economic Objectives:

Major Milestones in Corrective Actions: (C = Completed)

Date:	Milestone:
Ongoing	Eliminating, to the maximum extent practicable, government unique terms and conditions.
C	1. In FY 1995, the Department began the implementation of FASA, in particular, the portions on the use of commercial items and the simplified acquisition threshold. This authority allows the use of commercial terms and conditions in many instances thus reducing barriers to domestic commercial sources , improving technology and reducing prices.
Ongoing	2. The Department was also able to obtain additional legislative relief which promotes the use of commercial items and the simplified acquisition threshold and is currently in the process of implementing this new authority.

OSD Functional Proponent Point of Contact:

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Related Initiatives:

A major control issue/systemic weakness is a statement of a broadly defined management control deficiency of a Department-wide nature. Individual DoD Components have reported on efforts to correct management control weaknesses which are supportive of departmental systemic initiatives. These Component weaknesses are listed below for information purposes. The list identifies the reporting DoD Component and, within each Component, the status of those weaknesses (either unresolved or resolved). Furthermore, Volume II of the Annual Statement of Assurance contains additional weaknesses that have no specific correlation to reported systemic weaknesses, but have been identified by the DoD Components in order to achieve full compliance with management control guidelines.

Department of the Navy

Unresolved:

Contracted Support Services Controls

Requirements Determination

Resolved:

Acquisition Regulation Requirements

Inadequate Operational Testing for the Acquisition of Systems, and Poorly Defined Program Initiations

Defense Logistics Agency

Unresolved:

Untimely Contract Terminations at Wholesale Inventory Control Activities

Defense Special Weapons Agency:

Unresolved:

- Placement of Orders Under the Economy Act

U. S. Transportation Command:

Unresolved:

Inadequate Internal Controls to Oversee Military Sealift Command Contractor-Operated Ships Programs

Information Systems Security

Statement of the Problem: Over the last several years, there has been a significant increase in computer system intrusions within the Department of Defense that have highlighted the vulnerability of information systems to information-warfare type attack. During this time, DoD unclassified systems and networks used to support finance, logistics, medical, procurement, personnel, research and development activities, and other support and sustainment functions, have been repeatedly penetrated by unknown attackers. Dependence on these systems to operate the Department makes this a critical readiness issue. It is also critical on a national scope as systems and networks of the Defense Information Infrastructure (DII) develop and integrate into the National Information Infrastructure (NII).

Source of Identification: Department of Defense Inspector General (DoDIG) audits.

Potential Impact of the Problem: Unauthorized intrusion and access into DoD systems could result in improper alteration or disclosure of records, wrongful payments within the financial and contracting systems, disruption of service, and outright loss of sensitive data. In the most extreme scenario, terrorists or other adversaries could seize control of DoD information systems and seriously degrade the ability to deploy and sustain U. S. Forces.

Possible Solutions: Correction of the problem will require a major and sustained effort to:

- identify, develop, and deploy needed protective security technologies for the DII,
- define, resource, and implement effective and sound security management procedures,
- develop, deploy, and operate an attack-intrusion detection system for the DII,
- ensure the design philosophy for the DII reflects the requirement for and incorporates adequate protection from a dedicated attack,
- implement an operational capability to react to attacks upon the DII through the reallocation and/or reconstitution of information processing capabilities, and,
- improve the training and equipping of people responsible for information systems security and for the operation and use of DoD information systems.

The Assistant Secretary of Defense (Command, Control, Communications and Intelligence), the Defense Information Systems Agency (DISA), the Military Departments, and the National Security Agency (NSA) are all playing critical roles in solving the information systems security problem. Computer security costs are a substantial issue, and an additional investment in this area will be required. Additional funding is being sought in the FY 1998 - 2003 program/budget process.

Major Milestones in Corrective Actions: (C = Completed)

To date, the Department has implemented several information security initiatives to prevent unauthorized access to defense networks, systems, and data. Specifically:

Completed Milestones:

Date:	Milestone:
C	A policy mandating employment of multiple Personal Computer Memory Card International Association (PCMCIA) Card Slots in personal computers and work stations acquired by DoD continues to be in effect throughout the Department. Existing acquisition contracts for personal computers and workstations as well as all new acquisitions support the minimum PCMCIA capability set forth in the policy. This configuration supports the Department's Multilevel Information Systems Security Initiative that is intended to achieve a user-to-user multilevel security capability for automated systems.
C	DISA, Center for Information Systems Security, has made progress in establishing an Information Career Management Program/professionalization program and in creating user INFOSEC training programs Defense-wide. A data base has been created to hold all available training-related activities within the Department, industry, and academia. This data base will provide one-stop-shopping for training needs.
C	In the third quarter of FY 1996, Operation Mongoose fraud unit became a permanent office in Monterey, California under the Defense Finance and Accounting Service.

Milestones (FY 1997 and beyond):

Date:	Milestone:
Ongoing	DoD Directive 5200.28, "Security Requirements for Automated Information Systems (AIS)," and the accompanying manual provide mandatory, minimum automated information systems security requirements for systems processing classified, sensitive unclassified and unclassified information. Portions of this directive have been incorporated into a Security Policy Board initiative to create a common policy and implementing procedures that will standardize a set of system security principles for systems that process classified information across the Executive Branch. Additionally, development efforts continue within the Department on a policy addressing the availability, integrity, and

	confidentiality of all DoD systems. This policy will also offer a cost-effective risk management approach to guide the implementation of systems security.
4/97	Draft DoD Directive 5200.28 Revision.
Ongoing	Operation Mongoose was established to operate as a fraud detection and prevention unit to mitigate fraudulent attack on DoD financial assets. Large-scale computer matches to uncover anomalies are keys to the program that is a collaborative effort with the Under Secretary of Defense (Comptroller) (USD(C)), Department of Defense Inspector General, the Defense Finance and Accounting Service (DFAS), and Under Secretary of Defense (Personnel & Readiness). The first Government-wide fraud conference was held at the Department of Commerce in FY 1996. The Steering Committee that planned and executed the two-day symposium developed a set of recommendations that promote government-wide collaboration on fraud prevention and detection initiatives. The recommendations will be pursued by the President's Council on Integrity and Efficiency and the Chief Financial Officer Council.
Ongoing	The approval of migration systems is being given subject to the conditions that security policies be developed or updated for each system, are consistent with current DoD policies and known or anticipated threats and vulnerabilities, and that security assessments be completed for each system to determine compliance with its security policies.
Ongoing	A Security Review Group composed of DoD senior-level managers (i.e., USD(C), Assistant Secretary of Defense (Command, Control, Communications and Intelligence (ASD(C3I)), DoDIG, DFAS, and DISA) was established to ensure that DISA and DFAS effectively and promptly resolve several long-standing computer security deficiencies identified in five audit reports.
Ongoing	DISA has made substantial progress in improving the security posture at the Defense Megacenters. In addition to focusing on the specific recommendations addressed to DISA in the aforementioned five audit reports, the Agency is implementing substantive solutions to the more critical systemic computer security problems. For example, DISA has established staff assistance teams responsible for periodic on-site analysis of megacenter operations. These teams consist of subject matter experts who review, educate, train, assess, and assist the megacenter staffs.
Ongoing	ASD(C3I) continues to urge DoD Components to emphasize the importance of computer security. Specifically, Components have been urged to (1) accelerate the correction of computer security weaknesses

reported in the Annual Statement of Assurance, or audit reports, (2) ensure that appropriate computer security policies and procedures have been issued, (3) strongly enforce computer security policies, and (4) test their capabilities on a regular basis to identify exposures and vulnerabilities, and eliminate them.

OSD Functional Proponent Point of Contact:

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Related Initiatives:

A major control issue/systemic weakness is a statement of a broadly defined management control deficiency of a Department-wide nature. Individual DoD Components have reported on efforts to correct management control weaknesses which are supportive of departmental systemic initiatives. These Component weaknesses are listed below for information purposes. The list identifies the reporting DoD Component and, within each Component, the status of those weaknesses (either unresolved or resolved). Furthermore, Volume II of the Annual Statement of Assurance contains additional weaknesses that have no specific correlation to reported systemic weaknesses, but have been identified by the DoD Components in order to achieve full compliance with management control guidelines.

Department of the Army

Unresolved:

Information Systems Security

Department of the Navy

Unresolved:

Navy's Military Personnel Records System Needs Replacement

Defense Civilian Pay System

Resolved:

Controls Over Operating Systems and Security Software

Department of the Air Force

Unresolved:

Security Controls for the Personnel Concept III Computer System

Resolved:

Operational Security of the Standard Base Level Computer and Local Area Networks

Information Systems Security at Air Force Laboratories

Defense Financial and Accounting Service

Unresolved:

Lack of Security Controls in Automated Information Systems

Inability of Defense Financial and Accounting Service-Denver to Test Army Transactions in the Front End Loader System

System Documentation

Unsecured Networks at Defense Financial and Accounting Service Financial Systems Activities

Resolved:

Automated Data Processing Security Internal Control Weaknesses

Need For Improvement in Redundancy Features for Automated Call Distributor/Interactive Voice Response System

General Controls Over Defense Business Management System

Defense Information Systems Agency

Unresolved:

Operating System and Security Software Controls

Defense Logistics Agency

Unresolved:

Automated Data Processing Security Vulnerabilities

Defense Commissary Agency

Unresolved:

Automated Information System Security

Environmental Deficiencies

Statement of the Problem: The Department of Defense (DoD) has been slow to issue uniform environmental security policy and guidance that enable Military Services and Defense Agencies to comply with the requirements of environmental statutes, Executive Orders, and regulations.

Source of Identification: Federal Managers' Financial Integrity Act disclosures and audit findings.

Potential Impact of the Problem: The deficiencies make it more difficult for DoD Components to know the process and procedures for compliance with environmental requirements. It makes them vulnerable to fines and penalties from these enforcement authorities.

Possible Solutions: The following actions and milestones respond directly to these deficiencies:

Guidance: The Deputy Secretary of Defense signed DoD Directive (DoDD) 4715.1, "Environmental Security" on February 24, 1996. In April and May 1996, the Under Secretary of Defense (Acquisition and Technology) (USD(A&T)) signed implementing DoD Instructions in the areas of cleanup, compliance, conservation, education, international activities, occupational health, occupational safety, and pest management. DoDD 4715.1 and its implementing DoD Instructions will replace 25 outdated environmental security related DoD Directives and Instructions. DoDD 4715.1 established the Environment, Safety and Occupational Health Policy Board (ESOHPB). The ESOHPB reviews progress in the environmental security program, including the initiatives described in this narrative statement.

Major Milestones in Corrective Actions

Date:	Milestone:
C	Deputy Secretary of Defense signs DoD Directive 4715.1
C	USD(A&T) signs DoD Instructions

Performance Measures: Measures of merit (MoMs) reflect environmental security goals, measure how well those goals are being achieved, and assess program effectiveness in environmental cleanup, compliance, pollution prevention, conservation, safety and occupational health, and pest management. MoMs reflect environmental security goals; respond to environmental statutes, Executive Orders, and regulations; and use data from the Defense Environmental Security Corporate Information Management (DESCIM) system.

Major Milestones in Corrective Actions: (C = Completed)

Completed Milestones:

Date	Milestone
C	ESOHPB measures environmental security program performance using MoMs

Corporate Information Management: Twenty-six environmental security-related migration modules are in advanced stages of fielding. The DESCIM effort will be instrumental in applying business process improvement principles to all functions within the environmental security program. The data collected and available in DESCIM modules will facilitate use of the performance measurement.

Major Milestones in Corrective Actions: (C = Completed)

Completed Milestones:

Date	Milestone
C	ESOHPB verifies fielding status of each DESCIM module

Overall Program Review. An April 22, 1995, report of the Defense Science Board Task Force on Environmental Security identified seven major opportunities for improvement in the Defense environmental security program, including: (1) establishing a management program of cleanup, compliance, pollution prevention, and conservation projects based on comparative risk reduction; (2) increasing focus on, and investment in, pollution prevention; (3) accelerating technology development and deployment; (4) integrating environmental considerations into weapons systems' life cycles; (5) assuring efficient and effective program implementation through benchmarking and appropriate metrics; (6) developing a proactive focus on natural and cultural resource conservation affecting readiness; and (7) creating a stable budget for the next five years to credibly satisfy environmental needs. The Deputy Under Secretary of Defense (Environmental Security) (DUSD(ES)) integrated the recommendations and their implementing actions, to the degree practicable, within environmental security program.

Major Milestones in Corrective Actions: (C = Completed)

Completed Milestones:

Date	Milestone
C	DUSD(ES) receives DoD Components' comments on report recommendations

C DUSD(ES) implements report recommendations

OSD Functional Proponent Point of Contact

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Related Initiatives:

A major control issue/systemic weakness is a statement of a broadly defined management control deficiency of a Department-wide nature. Individual DoD Components have reported on efforts to correct management control weaknesses which are supportive of departmental systemic initiatives. These Component weaknesses are listed below for information purposes. The list identifies the reporting DoD Component and, within each Component, the status of those weaknesses (either unresolved or resolved). Furthermore, Volume II of the Annual Statement of Assurance contains additional weaknesses that have no specific correlation to reported systemic weaknesses, but have been identified by the DoD Components in order to achieve full compliance with management control guidelines.

Office of the Secretary of Defense

Resolved:

Environmental Security Program (This individual DoD Component weakness has now been consolidated with the systemic weakness (above) and will no longer be reported separately.

Department of the Army

Unresolved:

Pollution Prevention Management

Department of the Navy

Resolved:

Compliance with Environmental Laws and Regulations by the Department of the Navy Concerning Management and Elimination of Ozone Depleting Substances

Hazardous Waste Management

Third Party Collection Program

Statement of the Problem: The Department of Defense Inspector General (DoDIG) concluded in Office of the DoDIG (OIG) Report No. 94-017 that procedures in use within the Department of Defense (DoD) Medical Treatment Facilities (MTFs) were not adequate to ensure that all inpatients with other health insurance (OHI) were identified. The Office of the Assistant Secretary of Defense (Health Affairs) (OASD(HA)) specifically requested a follow-up audit by the DoDIG with the objective to determine how to better identify patients with OHI. In the OIG May 7, 1996 report, No. 96-113, the DoDIG found that DoD had significantly improved OHI identification procedures. Additionally, OIG Report 94-017 noted that MTF personnel were not adequately trained to evaluate the accuracy of insurance payments, nor were procedures in place to ensure that such validations were performed. The DoDIG also found this to be true in the May 7, 1996 report. The DoDIG also found, in the December 1993 report, that management controls did not ensure that accounting and collection duties related to cash receipts were kept separate at the MTFs.

OASD(HA) established this program to ensure that DoD collects the cost of medical treatment for beneficiaries covered by third party insurers. Recognizing that improvements were needed, the Third Party Collection (TPC) Program upgraded the collection basis from per diem billings to one based on diagnosis related groups (DRGs); expanded the single outpatient billing category from one to sixty; and expanded outpatient categories to include land ambulance and hyperbaric services. The Department implemented these changes in FY 1995 and updated with the FY 1996 rates package released by the Office of the Under Secretary of Defense (Comptroller) on September 22, 1995.

Source of Identification: Department of Defense Inspector General Reports No. 94-017, December 6, 1993, and No. 96-113, May 7, 1996.

Potential Impact of the Problem: If DoD is to recover the cost of treatment from individuals with third party insurance, it must continue to improve the identification of inpatients with insurance and the validation of third party payments. The DoDIG noted in the December 1993, report that the Department lost more than $40 million in monetary benefits because of ineffective procedures.

Possible Solutions: Solutions include improved awareness by health care personnel and internal and external marketing of the TPC program. Lead Agents, Service Headquarters, MTF Commanders and their staffs participated in the January, 1995, TRICARE Conference. At this conference, OASD(HA) conducted a one and one-half day track specifically dealing with Third Party Collections. We attempted to educate senior leaders on the importance of this program. MTFs also use various media, including brochures, posters, bulletin boards and newspaper articles to market the program to their beneficiaries.

Additionally, a Third Party Collection Program conference was held June 26-30, 1995, in San Antonio, TX sponsored by the three Military Departments. Along with several excellent presentations, some dealing with OHI identification and claims follow-up, over 100 questions were submitted by attendees and answers provided to the Military Departments.

While DoD has clearly shown marked improvement in identifying patients with OHI, other mechanisms are in place or planned to identify patients with OHI, and to improve on claims follow-up. Specifically:

- DoD has made available the national Health Care Cost Recovery (HCCR) for MTFs to contract all or part of their TPC program. To date, over 30 MTFs are in various stages of the contracting process with favorable results reported.

- DoD financed and are developing an interface between the Defense Eligibility Enrollment Reporting System (DEERS) and the Composite Health Care System (CHCS). This will allow us to maintain a central repository of patients with OHI that can be queried by all sites with CHCS.

- The Medical Health Services System (MHSS) deployed the Third Party Outpatient Collection System (TPOCS) to over 90 sites, and deploys to one site per week for the remainder of the calendar year. DoD established an interface between TPOCS and the Ambulatory Data System (ADS) which will gather outpatient OHI data and transmit this data to TPOCS for billing. This will greatly enhance outpatient billing.

- The OASD(HA) distributed a Uniform Business Office Manual to the Military Departments, the Joint Chiefs, the Under Secretary of Defense (Comptroller), the General Counsel and DoDIG for formal coordination. The Principal Deputy Assistant Secretary of Defense (Health Affairs) signed that document on March 11, 1996. The Manual specifically addresses identification of patients with OHI, verification and follow-up of claims, and the separation of duties at MTFs.

- DoD funded a $450,000 electronic billing System Change Request for CHCS Version 4.6 development. This was our top priority for FY 1996, and will markedly enhance the speed and accuracy of billing procedures. Additionally, the OASD(HA) is working with the Defense Finance and Accounting Service (DFAS) and the Department of the Treasury to establish electronic funds transfer. This will eliminate many of the potential funds handling issues.

- OASD(HA) distributed two training guides to the Military Departments for their use. The two guides include an Insurance Follow-Up Guide and an Insurance Identification and Coverage Confirmation guide. These guides specifically address the two primary areas of concern to the DoDIG - OHI identification and claims follow-up.

Strict adherence to policy and guidance published in DoD 6013-M (the OASD(HA) Uniform Business Office (UBO) manual) for cash management through billing, collection, deposit and payment of funds, along with the electronic billing and electronic funds transfer initiatives, will strengthen the financial aspects for the TPC Program.

Major Milestones in Corrective Action: (C = Completed)

Completed Milestones

Date:	Milestone:
C	Developed and proliferated marketing plans to the Military Departments for use by their MTFs. Each MTF uses this to develop a marketing plan tailored to it's MTFs.
C	Sponsored a one and one-half day training session for Lead Agents, MTF Commanders and their staffs at the January 1995 OASD(HA) sponsored TRICARE Conference.
C	Implemented the national Health Care Cost Recovery (HCCR) contract.
C	Funded the DEERS-CHCS Interface to provide patient level OHI data and a standard insurance company table.
C	Held a four day Third Party Collection Program conference sponsored by the three Military Departments to address issues of OHI identification, verification and follow-up, separation of functions etc.
C	Completed an interface between the TPOCS and the ADS. This will greatly improve identification of outpatients with other health insurance.
C	Distributed additional training guides dealing with Pre-Certification of Claims; and Coordination of Benefits.
C	Deploy the Third Party Outpatient Collection System to all MTFs that don't have an automated outpatient system. Has been deployed to over 90 sites.

Planned Milestones: (FY 1997)

Date:	Milestone:
1/97	Distribute the new UBO manual that standardizes and clarifies billing procedures related to the TPCP, MSA and Third Party Liability Programs. This manual has completed internal coordination and been signed out by

	the Principal Deputy Assistant Secretary of Defense (Health Affairs) for coordination outside Health Affairs, including the Joint Chiefs, General Counsel, DoDIG and formal coordination by the three Military Departments. Once complete, it will be ready for print and distribution.
6/97	Implement electronic funds transfer technology in inpatient MTFs. This will ensure adequate time to do a beta test and bring up all MTFs on this functionality.

Planned Milestones: (Beyond FY 1997)

Date:	Milestone:
None.	

OSD Functional Point of Contact:

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Related Initiatives:

A major control issue/systemic weakness is a statement of a broadly defined management control deficiency of a Department-wide nature. Individual DoD Components have reported on efforts to correct management control weaknesses which are supportive of departmental systemic initiatives. These Component weaknesses are listed below for information purposes. The list identifies the reporting DoD Component and, within each Component, the status of those weaknesses (either unresolved or resolved). Furthermore, Volume II of the Annual Statement of Assurance contains additional weaknesses that have no specific correlation to reported systemic weaknesses, but have been identified by the DoD Components in order to achieve full compliance with management control guidelines.

Department of the Air Force

Third Party Collection Program

Conclusion

The information provided in the Department of Defense Annual Statement of Assurance focuses on complying with the requirements of the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget Circular A-123, "Management Accountability and Control." The narratives contained in this report reflect continuing improvement in the status of the systemic control weaknesses since last reported in the FY 1995 Annual Statement of Assurance. The brevity of this Volume I presentation provides, at a glance, the status of the most significant internal control issues in the Department of Defense.